

# KENTUCKY ECONOMIC INDICATORS

July 2005 Indicators as of September 22, 2005

## **KY Composite Index of Leading Indicators increased 1.2 percent for July.**

- The Leading Index increased for the second consecutive month.
- The Leading Index rose by 1.7 percent over the same month last year.
- Component indicators were mixed.
  - KY Labor Intensity Index decreased 2.2 percent.
  - + The US Leading Index increased 0.9 percent.
  - o The Index of KY Initial UI Claims was unchanged at 103.5.
  - + US Retail Sales increased 23.8 percent.
  - o The Louisville Help Wanted Index was unchanged at 41.

*Component weights for July are 52.46, 19.81, 15.33, 10.62 and 1.77 respectively.*

## **KY Composite Index of Coincident Indicators decreased 0.5 percent for July.**

- The Coincident Index was negative for only the second time this year.
- Same-month-last-year growth is positive for the twenty-fourth consecutive month at 2.4 percent.
- Component indicators were all positive for July.
  - KY Total Nonagricultural Employment decreased 2.9 percent.
  - + US Industrial Production Index increased 0.6 percent.
  - + US Personal Income Less Transfers increased 1.0 percent.

*Component weights for July are 32.65, 29.83 and 26.64 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.*

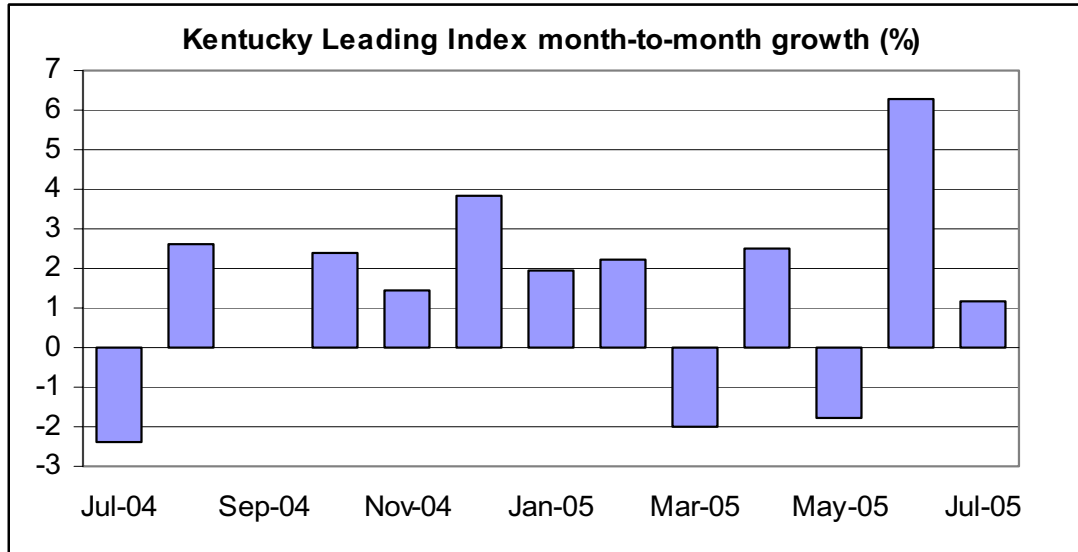
The Kentucky Leading Index rose modestly in July. Components aligned along national and state bounds. The two national components were both positive. Two of the three state components were unchanged and one declined moderately. This is the third consecutive month that the Kentucky Labor Intensity Index has been negative. This is concerning, as the Labor Intensity Index carries the largest weight in the Leading Index, and therefore has the most influence on the Leading Index. The declines have been small to moderate, but remain above their two-year trend line. It is also worth noting that relative to the other components in the Leading Index, the recovery from the 2001 recession in the Kentucky Labor Intensity Index started well after the recovery in other components had begun.

The most recent peak in the Kentucky Labor Intensity Index was in May 2000 at 108.0. The most recent trough occurred in April 2003 at 103.9. At the current value of 105.3, the Kentucky Labor Intensity Index has made up only 35.6 percent of its recession losses to date, while the Kentucky Leading Index has already surpassed its previous peak.

The majority of the Kentucky Leading Index's success has come from the small but steady improvements in the Kentucky Initial Unemployment Insurance Claims Index and the strong and steady US Retail Sales components. The US Leading Index has been mostly positive but erratic. The last four consecutive months are especially reassuring following the three negatives that were observed from January to March. One should keep in mind that the US Leading Index was revised and substantially changed starting in May, wherein the February 2005 growth values for the US Leading Index were revised from -1.0 percent to +2.7 percent. After the May revisions are considered, the US Leading Index landscape in 2005 is much healthier. This was a considerable benefit to the Kentucky Leading Index.

The Kentucky Nonagricultural Employment and Manufacturing Employment figures for July are a bit misleading. Transportation Equipment Employment is the sole cause for this decline. The rest of the sectors are performing very well. The July declines are mostly due to a timing issue regarding the relative placement of the notoriously high number of planned layoffs in the July 4th week period and the survey period in the second week of the month. Sixty-eight hundred nominal (4,500 seasonally adjusted annual rate) positions were lost during July as a result of this timing issue. This July anomaly occurred in 2004 also. Moreover, the Transportation Equipment Employment decline was also the primary reason that the Kentucky Labor Intensity Index declined. The other employment sectors in the index were essentially flat.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



### About the Indicators

#### **Kentucky Reference Series**

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

#### **Kentucky Leading Indicators**

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

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#### **Table Notes:**

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, [www.osbd.ky.gov](http://www.osbd.ky.gov)

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**SELECTED KENTUCKY ECONOMIC INDICATORS  
SEASONALLY ADJUSTED**

	2004												2005			
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL			
KY Leading Index (1992=100)	117.4	117.6	117.6	117.9	118.0	118.4	118.6	118.8	118.6	118.8	118.6	119.2	119.4			
% Chg Previous Month SAAR	-2.4	2.6	0.0	2.4	1.4	3.8	1.9	2.2	-2.0	2.5	-1.8	6.3	1.2			
% Chg Same Month Last Year	2.4	2.4	1.6	2.1	1.9	1.9	1.9	1.8	1.0	1.4	0.9	1.4	1.7			
KY Coincident Index (1992=100)	130.5	130.8	130.7	131.4	131.6	133.4	132.1	132.4	132.6	132.8	133.0	133.6	133.6			
% Chg Previous Month SAAR	3.2	2.6	-1.0	6.7	2.2	18.0	-11.1	2.7	2.0	1.1	2.1	5.8	-0.5			
% Chg Same Month Last Year	2.3	2.5	2.2	2.5	2.2	3.4	2.3	2.2	2.3	2.1	2.1	2.7	2.4			
KY Nonag Employment (000s)	1,789.7	1,796.7	1,798.6	1,801.0	1,800.7	1,802.7	1,802.4	1,803.6	1,807.1	1,815.1	1,816.7	1,821.2	1,816.7			
% Chg Previous Month SAAR	-4.4	4.8	1.3	1.6	-0.2	1.3	-0.2	0.8	2.4	5.4	1.1	3.0	-2.9			
% Chg Same Month Last Year	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.8	1.0	1.3	1.4	1.5			
KY Mfg Employment (000s)	258.2	264.6	264.4	265.5	264.7	264.2	264.6	264.5	265.1	266.0	266.4	265.4	259.3			
% Chg Previous Month SAAR	-24.1	34.2	-0.9	5.1	-3.6	-2.2	1.8	-0.5	2.8	4.2	1.8	-4.4	-24.3			
% Chg Same Month Last Year	-2.4	0.1	0.0	0.5	0.2	-0.2	0.0	0.0	0.3	0.7	0.7	0.5	0.4			
KY Unemployment Rate (%)	5.3	5.1	4.9	4.8	4.7	4.7	5.0	5.2	5.3	5.6	5.7	5.7	5.9			
KY Index of Initial UI Claims	101.9	102.0	102.5	103.0	102.4	103.1	102.8	104.0	103.3	103.6	102.6	103.5	103.5			
% Chg Previous Month SAAR	-6.9	1.5	6.1	6.3	-6.9	8.1	-2.9	14.6	-7.3	3.7	-11.2	10.3	0.0			
% Chg Same Month Last Year	1.9	1.7	2.4	1.9	1.1	1.7	1.0	2.6	1.2	1.5	0.2	1.0	1.6			
KY Labor Intensity Index (1992=100)	104.9	105.1	105.1	105.1	105.3	105.3	105.7	105.6	105.7	105.7	105.7	105.5	105.3			
% Chg Previous Month SAAR	-2.5	2.4	0.7	0.0	1.4	0.5	4.1	-1.1	1.3	0.9	-0.5	-2.0	-2.2			
% Chg Same Month Last Year	0.6	0.7	0.7	0.7	0.7	0.8	1.0	0.8	0.7	0.7	0.6	0.4	0.5			
Louisville HWI (1992=100)	45.0	47.0	40.0	41.0	42.0	41.0	42.0	41.0	40.0	38.0	39.0	41.0	41.0			
% Chg Previous Month SAAR	-77.7	68.5	-85.6	34.5	33.5	-25.1	33.5	-25.1	-25.6	-46.0	36.6	82.2	0.0			
% Chg Same Month Last Year	-10.0	0.0	-45.2	-18.0	-14.3	-28.1	-16.0	-25.5	-28.6	-25.5	-18.8	-19.6	-8.9			
GF Total Tax Receipts (\$ mill)	519.1	513.4	655.0	563.6	587.9	709.7	659.6	500.8	568.6	808.4	525.6	738.7	573.9			
% Chg Same Month Last Year	10.2	11.7	4.1	6.3	10.7	5.0	13.1	8.3	11.7	12.1	9.6	16.6	10.5			
GF Sales & Use Receipts (\$ mill)	226.1	211.7	206.6	224.0	201.1	217.7	271.4	176.3	200.1	224.2	216.1	219.6	238.5			
% Chg Same Month Last Year	8.6	7.3	3.1	5.0	1.0	4.7	8.8	7.5	8.2	3.1	5.1	9.9	5.5			
GF Income Tax Receipts (\$ mill)	224.2	245.2	272.2	249.9	230.2	259.0	252.6	231.5	176.1	413.7	215.3	266.3	238.1			
% Chg Same Month Last Year	8.5	9.4	-0.3	9.5	2.8	4.6	21.9	6.6	24.0	12.8	13.6	-1.4	6.2			

**SELECTED U.S. ECONOMIC INDICATORS  
SEASONALLY ADJUSTED**

2005

2004

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
US Leading Index (1982=100)	135.0	135.1	135.2	135.2	136.0	136.9	136.8	137.1	136.2	136.5	136.5	138.1	138.2
% Chg Previous Month SAAR	4.6	0.9	0.9	0.0	7.3	8.2	-0.9	2.7	-7.6	2.7	0.0	15.0	0.9
% Chg Same Month Last Year	7.9	7.4	6.7	5.7	5.7	5.5	4.5	4.3	2.4	2.4	1.9	2.7	2.4
US Coincident Index (1992=100)	117.7	117.9	117.9	118.4	118.8	120.3	119.5	119.7	119.8	120.1	120.3	120.7	120.8
% Chg Previous Month SAAR	4.2	2.1	0.0	5.2	4.1	16.2	-7.7	2.0	1.0	3.0	2.0	4.1	1.0
% Chg Same Month Last Year	2.7	2.9	2.6	2.9	2.8	3.9	3.1	3.0	2.7	2.7	2.6	2.9	2.6
US Nonag Employment (Mil.)	131.6	131.8	131.9	132.2	132.3	132.4	132.6	132.9	133.0	133.3	133.4	133.6	133.8
% Chg Previous Month SAAR	0.8	1.7	1.2	2.6	1.2	1.4	1.1	2.7	1.1	2.7	1.1	1.6	2.2
% Chg Same Month Last Year	1.3	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.7	1.7	1.6	1.6	1.7
US Unemployment Rate (%)	5.5	5.4	5.4	5.5	5.4	5.4	5.2	5.4	5.2	5.2	5.1	5.0	5.0
US Initial Claims for UI (000s)	342.4	340.5	344.9	338.6	334.1	330.0	330.1	307.4	337.8	321.9	334.7	320.7	316.7
% Chg Previous Month SAAR	10.0	-6.5	16.7	-19.8	-14.8	-13.8	0.4	-57.5	210.1	-43.9	59.7	-40.1	-14.0
% Chg Same Month Last Year	-14.4	-14.8	-13.4	-11.0	-8.9	-8.7	-7.0	-13.7	-1.9	-6.8	-2.6	-5.6	-7.5
US Industrial Production Index	115.9	116.0	115.7	116.6	116.9	117.9	117.8	118.3	118.6	118.1	118.4	119.4	119.4
% Chg Previous Month SAAR	8.8	1.1	-3.3	10.1	3.1	10.3	-1.6	5.8	3.0	-5.2	3.7	10.1	0.6
% Chg Same Month Last Year	4.8	5.0	3.9	4.6	3.8	4.4	4.0	3.4	3.9	2.9	2.5	3.7	3.0
US Personal Income Less Trans. (Bil. 92\$)	7,630.8	7,648.7	7,639.4	7,713.9	7,745.8	8,071.9	7,794.2	7,811.7	7,820.2	7,842.8	7,859.6	7,904.4	7,911.1
% Chg Previous Month SAAR	8.3	2.9	-1.4	12.4	5.1	64.0	-34.3	2.7	1.3	3.5	2.6	7.1	1.0
% Chg Same Month Last Year	2.6	2.9	2.8	3.3	2.9	7.2	3.4	3.4	3.5	3.5	3.6	4.3	3.7
CPI, All Urban (1982-84=100)	189.2	189.3	189.6	190.7	191.2	191.2	191.3	192.0	193.2	194.2	194.1	194.1	195.1
% Chg Previous Month SAAR	-0.6	0.6	1.9	7.2	3.2	0.0	0.6	4.5	7.8	6.4	-0.6	0.0	6.4
% Chg Same Month Last Year	2.9	2.7	2.5	3.2	3.6	3.4	2.9	2.9	3.2	3.5	2.8	2.5	3.1
US Retail Sales (Bil. 84\$)	323.9	324.5	329.4	332.3	332.4	336.6	336.8	339.0	340.1	346.1	344.9	351.3	357.6
% Chg Previous Month SAAR	16.1	2.1	19.9	10.8	0.4	16.2	0.7	8.1	3.9	23.4	-3.9	24.6	23.8
% Chg Same Month Last Year	6.6	5.1	7.6	8.6	7.3	8.9	8.0	8.0	6.0	9.1	6.3	9.8	10.4
Manufacturing & Trade Sales (000s)	916.0	920.7	921.1	922.9	924.6	936.9	940.2	933.1	932.9	937.6	944.3	948.3	*943.0
% Chg Previous Month SAAR	8.0	6.3	0.6	2.4	2.2	17.1	4.3	-8.8	-0.3	6.3	8.9	5.2	-6.5
% Chg Same Month Last Year	5.1	6.1	5.5	5.2	4.8	5.6	6.1	4.9	2.1	3.5	3.8	4.2	2.9
US Consumer Expectations (1966=100)	91.2	88.2	88.0	83.8	85.2	90.9	85.7	84.4	82.8	77.0	75.3	85.0	85.5
% Chg Previous Month AR	43.4	-33.1	-2.7	-44.4	22.0	117.5	-50.7	-16.8	-20.5	-58.2	-23.5	328.0	7.3
% Chg Same Month Last Year	9.0	6.9	8.9	1.0	-3.3	1.2	-14.4	-4.6	-6.8	-11.8	-7.7	-4.0	-6.3
Ave. Prime Interest Rate (% NSA)	4.25	4.42	4.58	4.75	4.93	5.14	5.25	5.49	5.58	5.75	5.98	6.01	6.25

\*ARIMA estimation